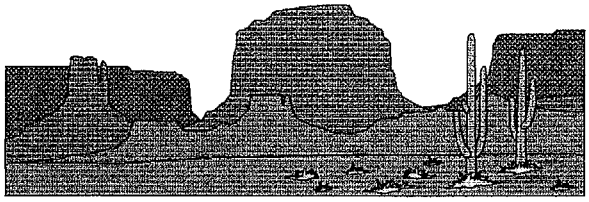
FINANCIAL PLAN



DOUGLAS MUNICIPAL AIRPORT MASTER PLAN

CHAPTER VIII: FINANCIAL PLAN

8.0 GENERAL

The ultimate goal of any airport should be the capability to support its own operation and development through airport user fees. Unfortunately, few general aviation airports the size of Douglas Municipal Airport are able to do this. For example, an airport cannot break even when the fees received from hangar rentals will not adequately amortize the cost of construction. This is the case all too frequently, and it therefore comes as no surprise when communities complain about the high costs of maintaining their airport's operation. Even by increasing fees, these airports might not reach the break even point. Yet the effort to become self-sufficient will certainly gain a more positive attitude by the community towards airfield development interests.

One point that should be brought up at this time, however, is the fact that while most general aviation airports the size of Douglas Municipal Airport are not self-sustaining, the intrinsic value that a well-maintained airport brings to a community or region goes far beyond the day-to-day operational costs of that airport. In other words, the money spent in the community or region by individuals or businesses which use the airport exceeds the expenses which are a result of operations at the airport.

Continuous participation by the City of Douglas and the airport management to enhance existing and future airport facilities could result in a more efficient and well managed airport, due to a cooperative effort. Revenues that could possibly be generated from tiedown spaces and fuel flowage fees should be analyzed to determine the effect on overall airport operations and the associated cost/benefit. Revenues from these two sources could be divided between the City and Airport. However, a careful review of the implications associated with such charges should be completed before any action is undertaken. Higher costs associated with tie down fees and/or higher fuel charges may eventually reduce the demand placed on the airport by aviation users.

8.1 FINANCING THE LOCAL SHARE

The airport proprietor has several methods available for financing additional capital required to meet the local share of airport development costs. The most common methods involve debt financing which amortize the debt over the useful life of the project. Methods of debt financing commonly available to counties and/or municipalities as well as the alternative of third party support are discussed below.

8.1.1 General Obligation Bonds

General Obligation bonds (GO) are a common form of municipal bonds whose payment is secured by the full faith credit and taxing authority of the issuing agency. GO bonds are instruments of credit, and because of the community guarantee, reduce the available debt level of the sponsoring community. This type of bond uses tax revenues to retire debt and the key element becomes the approval of the voters to a tax levy to support airport development. If approved, GO bonds are typically issued at a lower interest rate than other types of bonds.

8.1.2 Self-liquidating General Obligation Bonds

As with General Obligation bonds, Self-liquidating General Obligation Bonds are secured by the issuing government agency. They are retired, however, by cash flow from the operation of the facility. Providing the state court determines that the project is self-sustaining, the debt may be legally excluded from the community's debt limit. Since the credit of the local government bears the ultimate risk of default, the bond issue is still considered, for the purpose of financial analysis, as part of the debt burden of the community. Therefore, this method of financing may mean a higher rate of interest on all bonds sold by the community. The amount of increase in the interest rate depends, in part, upon the degree of risk of the bond. Exposure risk occurs when there is insufficient net airport operating income to cover the level of service plus coverage requirements, thus forcing the community to absorb the residual.

8.1.3 Revenue Bonds

Revenue Bonds are payable solely from the revenues of a particular project or from operating income of the borrowing agency, such as an airport commission which lacks taxing power.

Generally, they fall outside of constitutional and statutory limitations, and in many cases do not require voter approval. Because of the limitations on the other public bonds, airport sponsors are increasingly turning to revenue bonds whenever possible. However, revenue bonds normally carry a higher rate of interest because they lack the guarantees of municipal bonds. It should also be noted that the general public would usually be wary of the risk involved with a revenue bond issue for a general aviation airport. Therefore, the sale of such bonds could be more difficult than other types of bonds.

8.1.4 Combined Revenue/General Obligation Bonds

These bonds, also known as "Double-Barrel Bonds", are secured by a pledge of back-up tax revenues to cover principal and interest payments in cases where airport revenues are insufficient. The combined Revenue/General Obligation Bond interest rates are usually lower than Revenue Bonds, due to their back-up tax provisions.

8.1.5 Bank Financing

Some airport sponsors use bank financing as a means of funding airport development. Generally, two conditions are required. First, the airport must show the ability to repay the loan plus interest, and second, capital improvements must be less than the value of the present facility. These are standard conditions which are applied to almost all bank loan transactions.

8.1.6 Third-Party Support

Several types of funding fall into this category. For example, individuals or interested organizations may contribute portions of the required development funds (Pilot Associations, Economic Development Associations, Chambers of Commerce, etc.). Although not a common means of airport financing, the role of private financial contributions not only increases the financial support of the project, but also stimulates moral support to airport development from the local communities. Because of the potential for hangar development, private developers may be persuaded to invest in hangar development. A suggestion would be that the City authorize long-term nominal leases to individuals interested in constructing a hangar on airport property. With this type of lease, the airport would be more interested in hangar development,

as compared to charging the market or going rate for hangar space or ground rental. At the end of the initial lease, the airport would automatically retain ownership of the hangar, and at that time leases could be adjusted to a more realistic level. Another method of third-party support involves permitting the fixed base operator (FBO) to construct and monitor facilities on property leased from the airport. The advantage to this arrangement is that it lowers the local share of development costs, a large portion of which is building construction and maintenance. However, the disadvantage is that the airport sponsor will receive little or no percentage of the revenues generated at the airport. For this reason, it is important to consider all eventualities before entering into specific lease agreements in the future.

8.1.7 Community Support

While it would certainly be advantageous for an airport to support itself, the indirect and intangible benefits of the airport to the community's economy and growth must be considered. People are directly or indirectly employed on the airport by the City and individual businesses and airport management. As airport activity increases, it is possible that employment on the airport will also grow throughout the planning period. The local construction industry will also benefit directly from implementation of the development programs. Other community benefits involve business growth and development that is enhanced by the availability of an airport. While it is not likely that industry has or has not located in the Douglas area because of the airport, the fact remains that numerous companies benefit from the presence of Douglas Municipal Airport. Clients and suppliers of area businesses will also benefit from the future improvements to the airfield. This type of use by corporate and business aircraft is a definite trend across the United States. The trend has been generated, in part, by the movement of American industry from the larger metropolitan areas to smaller communities that offer lower taxes and labor costs and a better working environment. Time is money to corporate executives and corporate aircraft are answering the need for quick access to and from these new locations. The ability of a town to provide convenient access to corporate aircraft will be reflected not only in benefits to existing business and industry but will be a strong factor in attracting new industry.

8.2 STATE ASSISTANCE

The State of Arizona Department of Transportation (ADOT) has established a Division of Aeronautics, which assists airports across the State in developing their facilities as needed. Typically, projects which fall under the Airport Improvement Program in the State of Arizona are partially funded by the Federal Aviation Administration (approximately 91.06 percent). The State of Arizona will usually help fund the remaining portion of the project by splitting the other 8.94 percent with the Airport Sponsor. This financial aid comes in the form of a grant, which is reviewed and approved by the Division of Aeronautics. In cases where the FAA is not participating in a specific airport improvement project, the State of Arizona may fund a large portion of the eligible project itself. This is the case with the Douglas Municipal Airport, as it is not currently listed on the National Plan of Integrated Airport Systems (NPIAS), and is therefore, not eligible for FAA monies at this time. When the State of Arizona is funding eligible projects, it will typically fund 90 percent of the cost up to $500,000, with the Airport Sponsor providing the remaining amount.

The City of Douglas along with the ADOT Division of Aeronautics has developed a Five Year Capital Improvement Program (CIP) for the Douglas Municipal Airport. The following items are included in that CIP:

1994	Construct access for existing T-hangars and overflow aircraft parking apron
1995	Extend utilities to T-hangar area
1996	Widen Runway 3/21 - Phase I
1997	Widen Runway 3/21 - Phase II
1998	Overlay Runway 3/21

The total estimated costs for all of the projects listed above is approximately $2,735,000. The project costs would be shared by the State of Arizona and the City of Douglas, resulting in approximately $2,461,500 in funding by the State over the five-year period, and approximately $273,500 for the City of Douglas.

8.3 CONTINUOUS PLANNING PROCESS

The successful implementation of the Douglas Municipal Airport Master Plan will require sound judgement on the part of the airport sponsor.

Among the more important factors influencing the sponsor's decisions to carry out a recommendation are timing and airport activity. Both of these factors can be used as references in plan implementation. While it was necessary for scheduling and budgeting purposes to focus on the timing of airport development, the actual need for facilities is in fact established by levels of activity. Proper master plan implementation suggests the use of airport activity rather than time as guidance in development and scheduling.

Experience has indicated that major problems have materialized from the standard format of past planning documents. These problems center around the plan's inflexibility and inherent inability to deal with new issues that develop from unforeseen changes that occur after plan completion. The format used in the development of this master plan has attempted to deal with this issue.

First, to emphasize that planning is a CONTINUOUS PROCESS that does not end with the completion of a major project. Second, to try to recognize this without invalidating the overall Master Plan. The primary issues upon which this Master Plan are based will remain valid for several years. In fact, they are likely to remain valid into the next century. The primary goal is to achieve a self-supporting position for Douglas Municipal Airport and maintain this position without sacrificing service and accommodations.

The continuous planning process requires the City of Douglas to consistently monitor the progress of the airport in terms of growth in based aircraft and annual operations, because this growth is critical to the exact timing and need for new airport facilities. In the case of Douglas Municipal Airport, a concept which allows the weighing of "attraction needs" against the "capacity requirements" within the economic means of the City should be strictly adhered to. The information obtained from this monitoring process will provide the data necessary to determine if the development schedule should be accelerated, decelerated, or maintained as scheduled.